

Attachment 1.

CONFIDENTIAL

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EMBASSY OF FINLAND  
Washington, D. C.

Memorandum

Preliminary discussions have been going on for some time between the Embassy of Finland and the Department of State about the possible granting of a loan to Finland by making use of American Finnmark-assets, accrued from sales of agricultural surpluses to Finland under Public Law 480.

During these discussions the representatives of the State Department have pointed out that the granting of a Government Loan to Finland would require a waiver of certain provisions of the Battle Act by the President of the United States. In this connection the State Department inquired about the views of the Finnish Government as to the desirability of a possible waiver in favor of Finland.

The attitude of the Finnish Government to this question was explained as follows:

A waiver of the provisions of the Battle Act is a unilateral measure by the United States Government, entirely within United States jurisdiction. Consequently, such a measure can not raise any objections on the part of Finland. However, it would not be in the interest of Finland to have her trade relations with other powers publicly debated in the United States in connection with a possible waiver.

It is therefore requested that any reports by the United States Government to the Congress in connection with a possible waiver in favor of Finland might be treated strictly confidentially.

On the part of the State Department the opinion was expressed that the stipulations in force do not exclude such a procedure.

During the discussions the Embassy of Finland confirmed that no items mentioned under Title I List--Category A of the Battle Act are being exported from Finland. A further study of the Finnish exports showed that a comparatively limited number of items mentioned under Title I List--Category B of the Battle Act, mainly ships and cables, are being exported from Finland under bilateral agreements with East European Countries in exchange for grain, steel, oil and other important commodities imported by Finland. During the preliminary discussions it was further estimated that the total value of such Finnish exports for which a waiver would be necessary amounted to about 5% of the value of all Finnish exports. Bilateral trade agreements, including specified lists of agreed quotas for export- and import-commodities are regularly being published by the Finnish authorities.

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In this connection it should be remembered that the exports from Finland of ships and other commodities mentioned in the Battle Act is largely a consequence of the great expansion of the shipbuilding and other metal working industries which was made necessary by the war reparations Finland had to pay according to the Paris Peace Treaty of 1947.

Taking into consideration all the other postwar problems Finland has had to face on her own and in view of the necessity for Finland to maintain good relations with all countries, a strong case could undoubtedly be made for not applying the loan restrictions of the Battle Act against Finland.

As to the Finnmark-assets of the United States Government, they are in the greater part still unused, in spite of continuous efforts for their disposal. According to the latest estimates, the counter-part of about 25 million dollars is available at present.

Acting under instructions received from the Finnish Government, the Embassy of Finland respectfully submits for the consideration of the United States Government the following proposal:

That the United States Government releases the counterpart of the aforementioned sum as a loan to the Mortgage Bank of Finland to be used primarily for the financing of power plants and the further development of other industrial construction in Finland.

The Finnish capital market, overstrained by postwar rehabilitation financing, is today unable to supply capital enough to secure the normal growth of the Finnish economy. In order to put an end to the postwar inflation, the Bank of Finland is pursuing a tight money policy--rejecting any inflationary financing of economic development. However, the supply of capital for basic industrial expansion, such as for power plant construction, can not be withheld without seriously impairing the further development of the economy of the whole country. Thus the lending of the now unused Finnmark-assets of the United States to the Mortgage Bank of Finland would bring valuable help to the Finnish economy in the present difficulties. The Mortgage Bank of Finland having been founded by the Bank of Finland for the purpose of handling international development loan transactions, any loans granted to the Mortgage Bank will be fully in line with the financial policy of the Bank of Finland. Thus any inflationary impact of such a loan would be avoided.

In this connection it should be further pointed out that a Finnmark loan of the aforementioned size for basic industrial expansion would mean substantial orders for the Finnish metal industry. It would thus reduce unemployment which this year has been substantial, causing an exceptionally heavy drain on the Finnish Treasury and diverting large funds from the private money market into government unemployment financing.